

COUNTY OF ULSTER

P.O. BOX 1800
KINGSTON, NEW YORK 12402

Office of the Comptroller

(845) 340-3525
(845) 340-3697-Fax



Elliott Auerbach
Comptroller

Joseph Eriole, Esq.
Deputy Comptroller

Separation Payouts

Report of Examination

January 1, 2012 through June 15, 2012

December 3, 2012

Prepared By:

Joseph Eriole, Esq, Deputy Comptroller
Ronald E. Clum, CPA, Director of Internal Audit and Control
Elizabeth Weredyk, Senior Auditor

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Dear County Officials:

One of the County Comptroller's Office top priorities is to identify areas where county departments and agencies can improve their operations and services in order to assist county officials in performing their functions. This includes the development and promotion of short-term and long-term strategies to achieve reduced costs, improved service delivery, and to account for and protect the County's assets.

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current emerging fiscally related problems and provide recommendations for improvement.

The following is our report on the Separation Payouts made by the County to employees who were deemed entitled to such payments at the time of the separation from County employment, based upon their accumulated compensable time during the period of January 1st through June 15th 2012.

If we can be of assistance to you, or if you have any questions concerning this report, please feel free to contact us.

Respectfully submitted,

Ulster County Comptroller

I. AUTHORITY

The Office of the County Comptroller conducted this report in accordance with the Comptroller's authority as set forth in Article IX, Section 57, first paragraph, and Sections 57(A) and (G) of the Ulster County Charter, as well as applicable State laws, rules and regulations.

II. BACKGROUND

When an employee separates from employment with Ulster County ("County"), by means of retirement, resignation, or termination for cause (collectively referred to herein as "separation"), they may be entitled to a payout on the basis of accrued vacation time, sick time, and/or other accrued benefits. This payout is dictated by the collective bargaining agreement ("CBA") governing the employee's unit, or, in the case of management positions, the management unit's Personnel Policy Manual. Presently, all of the pertinent CBA's, with the exception of the CSEA contract, are expired. The analysis herein is unaffected by the enactment of a new CSEA agreement, since it is based on payouts which occurred under the previous CBA, or during the period when it was expired. But, the cautionary recommendations herein should be applied to the new CBA by the finance and payroll departments, as many of the same concerns have been carried through into the new agreement. We note at the outset that the terms of each CBA and the Personnel Policy Manual are not uniform on the issue of separation pay.

For the calendar year 2011, the County issued 141 payouts totaling \$1,173,294. Between January 1st and June 15th of 2012, the County processed 60 separation payouts amounting to \$518,948, or roughly 44% of the previous year's amount.

III. WHY AUDIT THE SEPARATON PAY PROCESS?

There are several risks that are associated with payouts. All of them, in our view, are caused or exacerbated primarily by vague or contradictory language in the CBAs, and complicated by the level of human intervention those vagaries and non-uniform language create. These conditions make it very difficult for the personnel charged with administering the process to interpret and apply the governing language. Among the risks are: (i) incorrect payout calculations resulting from miscalculated accumulated hours, (ii) miscalculated pro-ration factors, (iii) failure to apply limits or carryover amounts correctly, and (iv) payouts being processed on an administrative level as if the terms of such payouts are the same for all employees regardless of their bargaining unit.

Further, the Budget discussions in which County Officials were engaged at the time of the publication of this Report highlight the difficulty and importance of this issue. For instance, the *Ulster County 2013 Executive Budget* has budgeted \$1.9 million for separation payouts due to the possible sale of Golden Hill Health Center. This expenditure is only made if the facility is sold and that transaction is closed in 2013 (which is by no means certain, even if a contract of sale is in place). Also included in this budget is an additional \$2 million for contracted per diem services due to employees leaving in anticipation of the sale or closure of the facility, and having to be replaced pending the sale. However, even if the transaction is closed in 2013, the contract

services contingency will only be implemented to the extent that employees at Golden Hill choose to leave or are terminated prior to the closing date, since after that date, the buyer will assume any staffing obligation. The model under which both the budgeted separation payout and the budgeted contract services have been calculated should be vetted and considered.

IV. DESCRIPTION OF THE SEPARATON PAY PROCESS

The payout process is a cooperative effort between Personnel, the Department's payroll "liaison", and payroll staff in the Finance Department. Initiated by the Department, the employee status is changed to reflect their departure from the County which generates the "Report of Personnel Change" form ("RPC"). Once this RPC is produced it notifies the Finance and Payroll Departments that an employee has commenced the administrative process of separating from the County. The Payroll Department reconciles the hours on record with MUNIS (the Counties' Payroll Management System) to the hours the department intends to pay the separating employee. If the employee is eligible for vacation and sick time payouts the payroll department calculates the vacation accrual from the last anniversary date to the termination date and sick time for the last month of separation. Once all hours are confirmed, they are recorded on the "Employee Lump Sum Payout Worksheet". This document is used as backup for the payroll amount.

V. OBJECTIVES

The objectives of this report are to determine whether:

- 1) Personnel and payroll procedures are adequate to reasonably ensure compliance with the County's various employment contracts.
- 2) Employees were paid out the correct amount according to the amount of accumulated hours stated in MUNIS, the County's payroll and attendance software.
- 3) Recommendations can be made to minimize future costs of these payouts to the taxpayers of Ulster County.
- 4) Recommendations can be made to ensure future compliance with payout terms.

VI. SCOPE & METHODOLOGY

In order to conduct the investigation, our office reviewed a sample of twelve individuals, which represented approximately 20% of the population, who separated from Ulster County between January 1st and June 15th of 2012. This sample size covered approximately 60% of the payout population and included a cross section of bargaining units, departments, and reasons for separation. This sample can be seen on the next page in Table #1 which details the payout information. For purposes of this investigation we concentrated on vacation and sick time, as those categories of time comprised 93% of the total payout amounts.

**SEPARATION PAYOUTS
JANUARY 1, 2012 THROUGH JUNE 15, 2012**

**Table #1: Sample Selection of Separation Payouts
For the Period 01/01/12 - 06/15/12**

#	Department	Reason	Union/ Contract	Yearly Salary	Hire Date	Leave Date	Approx. Yrs of Service	Total Hrs Paid Out	Pay-Out Amount	% of Annual Salary
1	District Attorney Office	Resigned	Mgm't	\$ 89,637.84	12/27/04	2/4/12	7.00	638.75	\$ 27,421.54	31%
2	Public Health	Resigned	Mgm't	150,014.97	11/16/09	4/13/12	2.00	325.00	26,685.75	18%
3	Finance Employee	Retired	Mgm't	101,319.40	1/18/82	1/27/12	30.00	1,018.25	56,685.98	56%
4	Golden Hill	Retired	CSEA	38,675.00	2/6/89	1/30/12	23.00	763.75	16,229.69	42%
5	Sheriff	Retired	PBA	60,548.80	1/19/90	1/30/12	22.00	416.50	12,124.32	20%
6	Sheriff	Retired	CWA	60,781.68	1/1/78	4/27/12	34.00	649.75	18,914.23	31%
7	Social Services	Retired	CSEA	39,262.23	1/24/83	1/31/12	29.00	494.00	10,616.07	27%
8	Social Services	Terminated	Mgm't	101,319.40	1/8/07	1/7/12	5.00	236.75	13,179.87	13%
9	Health Department	Terminated	CSEA	55,851.39	7/28/86	4/11/12	26.00	599.75	18,334.36	33%
10	Budget Office	Retired	Mgm't	111,784.00	6/17/81	1/20/12	31.00	1,443.00	88,629.07	79%
11	Golden Hill	Retired	CSEA	65,452.40	1/27/82	1/29/12	30.00	338.50	10,503.66	16%
12	Comptroller's Office	Resigned	Mgm't	69,992.37	1/26/09	2/17/12	3.00	271.25	10,391.59	15%
									<u>\$ 309,716.13</u>	
Total Separation Payouts from 01/01/12-06/30/12									<u>\$ 518,948.00</u>	
Percentage of Coverage									<u>60%</u>	

Investigation procedures included:

- 1) Calculating the payouts of vacation and sick time for the selected sample according to the CBA's and/or the Personnel Policy Manual.
- 2) Calculating years of service, vacation and sick pro-ratio factors, and hourly rates for the selected sample.
- 3) Questioning any discrepancies noted between our calculated hours and hours according to the accrued hour printouts, provided by the Payroll Department.
- 4) Obtaining and reviewing the various employment agreements in effect as it pertained to vacation and sick time accruals and the payout thereof at separation.
- 5) Calculating average salary for the individuals and compared to the actual payout.

VI. CRITERIA

Criteria represent the laws, regulations, contracts, standards, measures, expected performance, defined business practices and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation.

Criteria for this investigation consisted of the following policy manual and employment contracts:

- 1) Personnel Policy Manual for Ulster County Department Heads, Managerial Staff, Legislative Employees, and Board of Election Employees. (Specifically Section D- Leave Time)

- 2) Civil Service Employees Association, Inc, Local 1000 AFSCME, AFL-CIO (Specifically Article 12- Vacation, Sick, Personal and Bereavement Leave, Schedule C- Vacation Accruals, and Salary Schedules as listed in Appendix C)
- 3) Police Benevolent Association (Specifically Article 5- Employee Benefits; Sections 6- Sick Leave, Section 7- Unused Sick Leave, and Section 9- Vacation)
- 4) UC Sheriff's Association/Communication Workers of America, AFL-CIO, Local 1105 (Specifically Article 4- Employee Benefits; Section 2- Sick Leave, Section 3- Unused Sick Leave, and Section 4- Vacation)

VII. INTERNAL CONTROLS

We gained an understanding of internal controls by interviewing payroll, personnel and finance staff. Internal controls relate to an organization's system of controls that are designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations. Internal control weaknesses are discussed in the findings and recommendations section of this report.

VIII. PRIVILEGED & CONFIDENTIAL INFORMATION

Employee names have been withheld from this report, but were provided to the appropriate personnel so that the identified issues could be reviewed.

IX. FINDINGS AND RECOMMENDATIONS

The following is a listing of the internal control findings as well as general findings noted during our review along with associated recommendations.

A. Review of Internal Controls

1. **Findings; Standard Payout Calculation Form:** During the review of separation payout documentation we became aware that there were two different worksheets that were being used to calculate final payouts; one for Golden Hill employees, the other for all other County employees. Upon review of the worksheets we found that the Golden Hill worksheets were manual rather than electronic, which increases the possibility for error. We also noted that there were several instances in which dates required to calculate the pro-ratio factors were omitted.

Recommendation #1: As stated above, the large projected expenditure as it relates to the closure of Golden Hill Health Center should be closely monitored due to the large number of employees that could seek this separation payout. We recommend the use of a standard payout calculation form. Our office could assist in prescribing the form, as is our purview under the Charter.

We further recommend the County utilize one standardized Microsoft excel file/form for both the County and Golden Hill, so that all required information be consistent and in the same format. This would ensure that the needed dates would produce a consistent pro-

ration factor for both entities. This excel file should be formatted so that only unprotected cells will be able to be accessed by the person filling out the form. It should be investigated to determine if this excel file could be placed onto the County's Intranet so that everyone can be directed to it and be using a consistent form that cannot be altered or changed in anyway.

2. **Findings; Approving Signatures:** Throughout our review of the payout worksheet we did not observe any signatures approving, or re-calculating any of the information. It is important that someone independent of filling out the form sign and date to verify that the information is true and accurate, as this is the documentation that authorizes the payout as well as the amount.

Recommendation #2: Segregation of duties is an important factor of internal controls; therefore, we recommend the payout worksheet require the employee, department payroll administrator, payroll, and finance to sign off, with each signatory checking the calculation.

3. **Findings; Documentation Checklist:** Although an "unofficial" checklist is in existence to document all the necessary forms required for a payout package, we noticed in our sample that only 42% actually contained the checklist. The use of a checklist is important in order to document and confirm that all required forms and information are included in the package. When this checklist was included in the package a majority of the required forms were present. When the checklist was missing the package was lacking a majority of the required forms. Some of the documents that were missing due to the lack of the checklist included: screen printouts, copies of RPC's, and department verifications.

Recommendation #3: We recommend that the current checklist being used be revised and updated accordingly to incorporate all necessary documents that the payroll department deems necessary to process an accurate payout. We also recommend that no payout be approved without this completed checklist as it aids in the processing of a complete and accurate payout.

We are aware that the Finance Department is working on amending this checklist and inserting sections for approval signatures.

B. General Findings

4. **Findings; Buyback Provisions:** The various bargaining units also have provisions for employees to buy back certain stated amounts of vacation and sick time bi-annually during their employment, if they have stated amounts of hours on the books currently. These provisions go on to state that a minimum amount of time should remain on the books after this buy back.

In order to verify that the buyback provisions were adhered to we asked for the accrued time worksheets that are a required report to be printed out from MUNIS (the County's

payroll software), when processing a separation payout according to the checklist that is currently being used. We reviewed the earned columns, the used columns, as well as the running balance columns to verify that the information was correct and accurate. We originally had a number of questions dealing with the following:

- The buyback of sick time created situations where an employee had below the stated minimum amount of sick time as required by their bargaining agreements according to the running balance column of these MUNIS worksheets.
- The buyback of sick time created situations where an employee's running balance according to MUNIS went into the negative.

We brought these concerns to the payroll department and we were advised that the running balance on these MUNIS accrual worksheets should not be used as they are not always accurate. Rather, it is their position that they use the "available balance" field in the payroll software program at the time of separation. We were also informed that some employee's time balances are imported from TimeForce, the County's time clock system that is used by some but not all departments.

Our concerns with this position are as follows:

1. If these accrual worksheets should not be used due to the fact that the running balances cannot be relied upon, why are they a required part of the paperwork that must be maintained in the separation package?
2. This "available" hours balance is only a number and does not show any detail behind the number, such as: earned, used, buybacks, adjustments, etc. The accrual worksheet shows this level of detail but again we were told not to use this worksheet as it cannot be relied upon.
3. Once an employee separates from the County this "available balance field" is no longer useful as the system either shows a negative amount (after the separation payment is made) or an amount that is incorrect as the system still accrues the time after the employee has left. In other words you cannot go back in time to see what the balance was when the employee separated from the County.

Recommendation #4: We recommend that the payroll department investigate with MUNIS why these running balance fields are inaccurate or to see if the information that is being entered into the system should be entered differently in order to utilize these reports. These reports are an important aspect in reviewing an employees' vacation and sick time over the course of his/her employment and should be used as the backup material to verify his/her accrued hours.

We recommend that the payroll department print out a screenshot of the available balance field as backup for the amount of hours an employee is being paid for at separation, if in fact the accrual worksheet from MUNIS cannot be corrected and/or modified. This has to

be done for once an employee leaves this balance will no longer be able to be retrieved from the system easily.

We further recommend when an employee sells back sick or vacation time, it is entered into the system as a “buy-back.” rather than an “accrual used” which is currently being done. This will make the yearly review easier and is a more accurate description of the usage.

5. **Findings; Compensation Schedules:** A salaried employee’s compensation is determined by their job title/grade and their length of service, which is detailed in each contract. We traced our sample back to either their salary schedules or the executive personnel budget. One individual’s pay has been calculated using the seven hour a day pay scale (\$31.01 per hour) rather than the eight hour a day pay scale (\$27.39 per hour), a difference of \$3.62 per hour.

We were informed that titled nursing employee, other than CNA’s are eight hour employees but retain a seven hour pay rate. According to the personnel department the authorization for this is a matter of past practice. Upon reviewing the CBA we were unable to reference these statements.

Recommendation #5: We recommend that if it is the intention to pay titled nursing employees at the seven hour rate then it be clearly identified in the current contracts. The personnel Officer and County Attorney’s Office, among others should include this consideration in all future CBA discussions.

6. **Findings; Manual Entries:** It was noted during our review and questioning of the accrued time balances that there were a number of questionable calculations dealing with the running balances of an employee’s vacation and sick time hours. It appears that this occurred when there were manual entries inputted into the system for corrections dealing with various timing differences and roll-forward amounts.

Recommendation #6: We recommend that whenever a manual entry or adjustment to an employee’s accrued time is made there should be a process of a supervisor approving this adjustment and a contemporaneous record made and kept explaining the manual adjustment, as it directly affects the potential payout at separation. This could be documented in a standard form. It should also be a procedure for the payroll department to look closely at the accrued time printouts and question any abnormalities in the running balances and question any conflicting entries.

7. **Findings; History Deletion:** We became aware that the time history had been deleted from the system dealing with one individual from our sample. We were informed that this was necessary for individuals who left County employment and were rehired after their separation, because if the past history is not deleted, the automated system accrues time as if the employee had never left service.

Recommendation #7: We recommend an employee's payroll/accrual history not be deleted from the system as this information may be needed in the future. If the system has flaws regarding a returning employee, the prior information should be backed up on an alternate media type or another employee number should be established.

8. **Findings; Contract Review:** During this entire review we closely read the current contracts and questioned the terminology, the conflicting language, and the intended implications thereof. The personnel responsible for administering the separation pay system, and the automated systems, are unfairly burdened by the complications the poorly drafted and inconsistent language creates. We raised numerous questions to the payroll department regarding entitlements to sick leave buyouts, vacation carryovers, the different meanings of "separation", "termination", and "termination for cause". We also had numerous questions dealing with the accumulation of sick and vacation time and the running balance totals vs. the available balance totals that are tallied by the County's payroll software.

We believe that as the contract gets amended throughout the years, terminology or provisions are added, deleted, and/or amended and the entire contract is not re-read to find any of this conflicting language.

For example in the CSEA contract Article 12, Section 4 it states that "upon death, retirement, or separation of service of an employee ... (the employee) shall be paid for all unused vacation earned..." it then goes on to say "if the employee separates from service, the employer shall pay the employee...for the unused vacation on a pro-rated basis in accordance with the number of months..." In that one paragraph it distinguishes death, retirement, or separation in the beginning but then only states employees who separates. In regards to this one paragraph it raises the following questions:

1. What happens to a terminated employee?
2. What happens to a terminated employee for cause?
3. Does an employee who separates by death, retirement, or termination (cause and no cause) receive this pro-ration of vacation leave?

The CSEA contract in Article 12, Section 6 states:

- "...employees, other than those having permanent status, terminated for cause, shall receive no payout of sick leave." What about employees who are just terminated?
- "...employees who separate from County service shall not be entitled to payment for unused sick leave." What is the meaning of separate? Does this include retirement, resignation, layoffs?

Also of note is that the numerous contracts are not consistent among each other. The CSEA contract pays unused sick time to employees terminated for cause but the PBA does not.

Recommendation #8: We recommend there should be regular Department meetings and internal memoranda clearly reflecting review of the contracts or policies by which each employee unit is governed, and ensuring compliance.

We recommend there should also be instituted a formal process by which labor counsel (or the Executive's Budget officers, in the case of management) is required to report the accrued time policies contained in the CBA's and management policy manual as each stands now, as each is updated in a new CBA, or whenever an amendment to the governing documents is made.

We further recommend during contract negotiations on any new CBA, the County Attorney's office should work with labor counsel to avoid contradictory, vague, or misleading language, as well as seek to "standardize" the definitions and terms across the CBA's with respect to accrued time payouts. Upon our review we became aware of contradictory language. The inconsistencies both within and across the CBA's create opportunities for human, and even electronic, error.

Finally, labor counsel should be obligated to prepare detailed memoranda for distribution to involved departments which explain how the difficult language is to be applied and conflicting language to be resolved. The personnel Officer and County Attorney's Office, among others should include this consideration in all future CBA discussions.

X. FUTURE CONSIDERATIONS

The Finance and Payroll Departments should explore whether MUNIS provides any training and or seminars dealing with the numerous features that the County may not be utilizing in order to print out meaningful accrual worksheets. These worksheets as discussed above are an important document to be used in regards reviewing an employees' accrued time balances upon separation from County employment.

The payroll department processes roughly 17,000 checks and 34,000 direct deposit advises per year which totals approximately \$95 million. The processing of this payroll along with the time management process is accomplished by three dedicated payroll personnel along with some help of other finance staff. Perhaps there should be another person dedicated to maintaining and reconciling the accrued hours within the departments as well as helping out with other payroll functions.

XI. FUTURE COST SAVINGS TO THE COUNTY

Following are suggestions for future policy discussions on this issue.

Limitations on Accrued Hours: Each contract limits the amount of vacation and sick time that can be accumulated; however the limits are so high (in some cases in excess of 100 days, or 800 hours of sick time) that almost no one in our sample was near these maximums. In future contract negotiations these amounts should be lowered, for new employees, to a more reasonable amount so that they truly are limits.

“Use it or Lose It” Policy: Another cost saving idea would be a “use it or lose it” policy where the employee must use his or her accrued vacation time before the end of their anniversary year. Any unused time at the end of the employee’s anniversary year would be lost or forfeited.

Vesting Schedule: Yet another possibility would be to place in service a vesting schedule, whereby the County would not have to pay separation payments until an employee is “fully vested”. Vesting is the amount of time you MUST work in order to fully accrue all of your accrued time and not forfeit it back to the County. Common vesting schedules are 20% per year up to five years, in which you are then fully vested. In summary the County would only have to pay a percentage of an employee’s accrued time for individuals employed for less than five years. There was approximately \$202,000 of payments made from January 1st through June 15th 2012 to individuals with less than five years of service.

If the County had this vesting schedule in place we calculated that the County would have paid approximately \$56,000 less in separation payouts for these employees alone.

Shift Differential: It seems that nurses at the Golden Hill Healthcare facility are being paid out at their shift differential pay rate rather than their standard hourly rate. When we inquired about this we were informed that this has been “the standard practice” since this was previously debated by another union group of individuals. If this is the County’s intention then it should be clearly written in the next contract during contract negotiations to avoid any confusion.

Payout at Average Hourly Rates vs. Current Rate: It is current County practice to pay separated employees at their current rate of pay rather than the rate they were paid when the hours were earned. This can be quite a large difference especially when an employee has worked in excess of twenty years. In our sample, with an average length of service of 20 years, we took the average salary and converted it to an average hourly rate. We then took that average hourly rate and applied it to the number of hours these employees were paid. We calculated that the County could have paid \$197,448 rather than \$309,716, a savings of \$112,268.

XII. CONCLUSION

A copy of this Report was provided to the Director of Finance Burton Gulnick, Jr., who noted his previous input with respect to Findings 1, 2, 3, 4, 6, and 7, which were considered in the preparation of the draft and final report, and also suggested that the Personnel Officer be involved with respect to any future CBA negotiations. This suggestion has been incorporated in Recommendations 5 and 8 herein.

It is hoped that this Report will provide some basis and structure for the adoption of revised and additional procedures, as well as short and long term policy strategies. Our office welcomes your follow up to implement such practices and policies.

Respectfully submitted,

Ulster County Comptroller's Office